

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name	County
Audit Date	Opinion Date	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)			
Street Address		City	State
			ZIP Code
Accountant Signature		Date	
Abraham & Gellray, P.C. Aaron M. Stearns			

**Bay Metropolitan
Transportation Authority
Bay City, Michigan**

FINANCIAL STATEMENTS

September 30, 2004

BAY METROPOLITAN TRANSPORTATION AUTHORITY

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September 30, 2004

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ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

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Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Bay Metropolitan Transportation Authority
Bay City, Michigan

We have audited the accompanying financial statements of the Bay Metropolitan Transportation Authority as of and for the year ended September 30, 2004, as listed in the Table of Contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Bay Metropolitan Transportation Authority for the year ended September 30, 2003 were audited by other auditors whose report, dated November 21, 2003, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

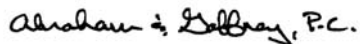
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bay Metropolitan Transportation Authority as of September 30, 2004, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the Authority has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as of October 1, 2003, along with all related statements and interpretations.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2004, on our consideration of the Bay Metropolitan Transportation Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis, as identified in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise Bay Metropolitan Transportation Authority's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, and Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Bay Metropolitan Transportation Authority. Such information, except for the portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

November 10, 2004

Bay Metropolitan Transportation Authority

Management's Discussion and Analysis Year Ended September 30, 2004

As management of the Bay Metropolitan Transportation Authority ["the Authority"], we offer readers of the Bay Metropolitan Transportation Authority's financial statements this narrative overview and analysis of the financial activities of the Bay Metropolitan Transportation Authority for the fiscal year ended September 30, 2004.

Financial Highlights

- The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$7,125,951.
- The Authority's total net assets decreased by \$1,053,909, as the result of current year activity. Of this figure \$1,191,505 in the decrease is attributable to depreciation.
- Capital contributions from the federal and state governments were \$357,630 in 2004. Such contributions were used to finance the purchase of revenue equipment [lift vans], a service truck and data processing equipment.
- Total expenses exceeded total revenues resulting in a loss of \$7,095,345, before capital contributions, state and federal grants, and local millage receipts are considered. This is due to an increase, in part, in operating expenses of about 2% and the decline in state operating assistance of 1.6%. Another large contributor to the increase in operating expenses is the annual depreciation of ten [10] new revenue vehicles [medium and large size buses] added to the fleet in 2002.

Overview of the Financial Statements

The Management's Discussion and Analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise four components: statements of net assets; statements of revenues, expenses, and changes in net assets; statements of cash flows; and notes to the financial statements.

The statement of net assets presents information on all of the Authority's net assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. The statement of net assets is shown on page 1 of this report.

The statement of revenues, expenses, and changes in net assets presents information on revenues, expenses, capital contributions, and how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of related cash flows. Thus, revenues, expenses, and capital contributions are reported in the statements of some items that will only result in cash flows in future fiscal periods. The increase or decrease in net assets may serve as an indicator of the effect of the Authority's current year operations on its financial position. The statement of revenues, expenses, and changes in net assets is shown on page 2 of this report.

The statement of cash flows summarizes all of the Authority's cash flows into four categories: cash flows from operating activities; cash flows from non-capital financing activities; cash flows from capital and related financing activities; and cash flows from investing activities. The statement of cash flows is shown on page 3 of this report.

Bay Metropolitan Transportation Authority

Management's Discussion and Analysis Year Ended September 30, 2004

The statement of cash flows, along with related notes and information in other financial statements, can be used to assess the following: the Authority's ability to generate positive future cash flows and pay its debts if and when they occur and/or mature; the reasons for differences between the Authority's operating cash flows and operating income [loss]; the effect of cash and non-cash investing, capital, and financing activities on the Authority's financial position.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the statement of net assets, statement of revenues, expenses, and changes in net assets; and statement of cash flows. The notes to the financial statements are shown on pages 4 to 12 of this report.

The financial statements provide information on all functions of the Authority as business type activities. The activities of the Authority are supported by a property tax levy, fare collections from passengers, and federal and state financial assistance.

Financial Analysis

Statements of Net Assets - Total assets of the Authority exceeded total liabilities by \$7,125,951 as of September 30, 2004. The largest portion of this excess [74.4%, or \$5,299,729 of total net assets of \$7,125,951] was invested in capital assets less any related debt that might be outstanding. The Authority used these capital assets to provide public transit services to customers and member jurisdictions; consequently, these assets are not available for future spending. Even though the Authority has no current debt, it should be noted that the Authority's investment in capital assets resources could not be used to liquidate any future liabilities. Such debt, should it occur, would need to be repaid using other sources of revenue such as property tax.

CONDENSED STATEMENT OF NET ASSETS

Current Assets	\$2,822,458
Capital Assets [net]	<u>5,299,729</u>
Total Assets	8,122,187
Current Liabilities	996,236
Noncurrent Liabilities	<u>0</u>
Total Liabilities	996,236
Net Assets	
--Invested in Capital Assets	5,299,729
--Unrestricted	<u>1,826,222</u>
Total Nets Assets	\$7,125,951

Unrestricted net assets [\$1,826,222] are available to meet the Authority's ongoing obligations.

Bay Metropolitan Transportation Authority

Management's Discussion and Analysis Year Ended September 30, 2004

Statement of Revenues, Expenses, and Changes in Net Assets - During fiscal year 2004, the Authority's activities resulted in a decrease in net assets of \$1,053,909. The decrease is largely attributable to a depreciation expense of nearly \$1.2 million. The key elements of the changes in net assets are shown in the following table which summarizes changes in net assets for the fiscal year.

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Operating Revenues	\$ 686,520
Non-operating Revenues	<u>6,041,436</u>
Total Revenues	6,727,956
Depreciation Expense	1,191,505
Other Operating Expenses	<u>6,590,360</u>
Total Expenses	7,781,865
Change in Net Assets	-1,053,909
Beginning Net Assets	<u>8,179,860</u>
Ending Net Assets	\$7,125,951

The increase in operating revenues of about \$59,000 [9.4%] was due to the higher reimbursement rates for contract services, for maintenance services and from the sale of capital assets. Property tax revenues increased by about \$55,000 [2.9%]. The annual rate of increase has been in the range of 3.0% since the millage was first approved in 1981. Investment income decreased by about \$5,700 [28.7%] due to lower interest rates and lower available cash balances during the year. State of Michigan Act 51 operating assistance decreased by about \$10,000 [0.4%] in spite of an increase in eligible operating expenses due to the fact that the state's reimbursement formula declined by about 1.5%. Federal FTA urban operating assistance increased by just over \$100,000 [15.7%] as the result of the decision made by the Authority to use all federal formula funds for operating purposes in lieu of using them to support capital purchases. Typically, in the past a sizable portion of federal urban formula funds have been used for capital purposes. It was felt, in 2004, that these funds could be better used for operating purposes.

The following table shows revenues and expenses by source for the fiscal year ended September 30, 2004.

Operating Revenues	\$ 686,520
Non-operating Revenues	
• Property Taxes	1,931,668
• State Funds	2,737,736
• Federal Funds	1,357,778
Interest Earnings	<u>14,254</u>
Total Revenues	6,727,956
Operations Expenses	5,238,021
Maintenance Expenses	1,371,314
General Administrative Expenses	<u>1,172,530</u>
Total Expenses	\$7,781,865

Bay Metropolitan Transportation Authority

Management's Discussion and Analysis Year Ended September 30, 2004

A table showing revenues and expenses by source for the fiscal year ended September 30, 2003, is not included since 2004 was the first year that the Authority was covered under requirements of GASB 34. In fiscal year 2005, the information shown above will form the basis of a comparison of revenues and expenses between 2004 and 2005.

Capital Assets and Debt Administration

Capital Assets - The Authority's investment in capital assets as of September 30, 2004, was \$5,299,729 compared to \$6,133,912 in 2003. Investment in capital assets includes: land, buildings and improvements; revenue and non-revenue vehicles; equipment; furniture, fixtures, and leasehold improvements. The net decrease in investment in capital assets during the current year was \$834,183 [13.6%]. The most significant event that affected the Authority's capital assets during fiscal year 2004 was the annual depreciation of ten [10] new revenue vehicles [medium and large buses] acquired in 2002.

The following table summarizes capital assets net of depreciation as of September 30, 2004.

Land [not depreciated]	\$ 165,894
Buildings and improvements	1,985,337
Revenue vehicles/Service vehicles	2,953,924
Furniture and fixtures	4,769
Maintenance equipment	66,685
Shelters and signs	7,257
Radio equipment/Fareboxes	41,401
Data processing equipment	74,462
Net Capital Assets	<u>\$5,299,729</u>

Additional information on the Authority's capital assets is shown in Note D on pages 8 and 9.

Outstanding Debt - At the end of the 2004 fiscal year, the Authority had no outstanding debt. This was unchanged from the 2003 fiscal year.

Other Significant Items

Property tax is the largest local source of revenue for the Authority and accounted for 28.7% of total revenues in both 2004 and 2003. The Authority's property tax has grown steadily at the annual rate of approximately 3.0% since it was first approved by the voters in 1981. The property tax was renewed by the voters for an additional five [5] years in November 2004. This tax will remain in effect until 2010.

The continuing difficult economic conditions affecting the State of Michigan are likely to have additional impacts on the Authority. State operating assistance has fallen continuously for the last six years. Prior to fiscal year 2004 the average percentage decline in state assistance was about 1.5% per year. In fiscal year 2005 the decline has been estimated at nearly 4.0% with formula assistance for small urban/non-urban systems declining from 42.3% to about 38.3%. This will result in a loss of over \$200,000 for the Authority in fiscal year 2005.

Bay Metropolitan Transportation Authority

Management's Discussion and Analysis Year Ended September 30, 2004

If such reductions were to continue well into the future, the Authority would have to closely review the transit services it currently operates to see which services, if any, could be reduced or eliminated without drastically altering the nature of the local public transit system. Fortunately, the Authority is currently in a fairly strong financial situation and has been able to weather changes in state and federal operating assistance levels without making drastic changes to the service it operates.

Requests for Information

This financial report is designed to provide our member jurisdictions, customers, investors, and creditors with a general overview of the Authority's finances. If you have questions concerning any of the information provided in this report, or if you need additional financial information, contact the Chief Financial Officer at the following address:

Finance Manager
Bay Metro Transit
1510 N. Johnson Street
Bay City MI 48708
Phone: 989-894-2900, ext 206

BASIC FINANCIAL STATEMENTS

BAY METROPOLITAN TRANSPORTATION AUTHORITY

STATEMENT OF NET ASSETS

September 30, 2004

ASSETS

Current assets

Cash and cash equivalents	\$ 1,927,987
Cash on deposit with agent	150,000
Accounts receivable	85,129
Grants receivable	369,878
Inventories	251,056
Prepays	<u>38,408</u>

Total current assets 2,822,458

Noncurrent assets

Capital assets, net	<u>5,299,729</u>
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TOTAL ASSETS 8,122,187

LIABILITIES

Current liabilities

Accounts payable	213,863
Accrued wages	162,796
Accrued payroll taxes	38,684
Workers' compensation liability	204,158
Deferred revenue	960
Due to Arenac Opportunities, Inc.	20,938
Compensated absences	<u>354,837</u>

TOTAL LIABILITIES 996,236

NET ASSETS

Invested in capital assets	5,299,729
Unrestricted	<u>1,826,222</u>

TOTAL NET ASSETS \$ 7,125,951

See accompanying notes to financial statements.

BAY METROPOLITAN TRANSPORTATION AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES FUND IN NET ASSETS

Year Ended September 30, 2004

OPERATING REVENUES	
Sales and charges for services	\$ 686,520
OPERATING EXPENSES	
Operations	5,238,021
Maintenance	1,371,314
General administrative	<u>1,172,530</u>
TOTAL OPERATING EXPENSES	<u>7,781,865</u>
OPERATING (LOSS)	(7,095,345)
NONOPERATING REVENUES	
Taxes	1,931,668
Intergovernmental	
Federal sources	1,357,778
State sources	2,737,736
Interest earnings	<u>14,254</u>
TOTAL NONOPERATING REVENUES	<u>6,041,436</u>
(DECREASE) IN NET ASSETS	(1,053,909)
Net assets, beginning of year	<u>8,179,860</u>
Net assets, end of year	<u><u>\$ 7,125,951</u></u>

See accompanying notes to financial statements.

BAY METROPOLITAN TRANSPORTATION AUTHORITY

STATEMENT OF CASH FLOWS

Year Ended September 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES

Cash receipts from customers	\$ 668,644
Cash paid to employees and vendors	(4,148,011)
Cash paid for employee benefits	<u>(2,291,710)</u>

NET CASH (USED) BY OPERATING ACTIVITIES (5,771,077)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Taxes	1,931,668
Subrecipient grants received	383,908
Amounts paid to subrecipients	(392,910)
Increase in deferred revenue	960
Intergovernmental operating grants	<u>3,617,485</u>

NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES 5,541,111

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital purchases	(357,630)
Capital grants	<u>357,630</u>

NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES -0-

CASH FLOWS FROM INVESTING ACTIVITIES

Interest revenue	<u>14,254</u>
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NET (DECREASE) IN CASH AND CASH EQUIVALENTS DURING YEAR (215,712)

Cash and cash equivalents, beginning of year 2,143,699

Cash and cash equivalents, end of year \$ 1,927,987

Reconciliation of operating (loss) to net cash (used) by operating activities

Operating (loss)	\$ (7,095,345)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities	
Depreciation	1,191,505
Loss on disposal of capital assets	308
(Increase) in accounts receivable	(17,876)
Decrease in inventories	9,143
(Increase) in prepaids	(3,163)
Increase in accounts payable	69,916
Increase in accrued wages	47,706
Increase in accrued payroll taxes	3,358
Increase in workers' compensation liability	24,786
(Decrease) in compensated absences	<u>(1,415)</u>

NET CASH (USED) BY OPERATING ACTIVITIES \$ (5,771,077)

See accompanying notes to financial statements.

BAY METROPOLITAN TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Bay Metropolitan Transportation Authority was established under the applicable laws of the State of Michigan Public Act 196, as amended, to operate a transportation system within the County of Bay on November 3, 1986. Public Act 196 known as the "Public Transportation Authority Act" authorizes the formation of public transportation authorities with certain powers and duties as separate and distinct political subdivisions within the State of Michigan.

The Bay Metropolitan Transportation Authority receives Federal and State financial assistance in the form of operating and capital grant funding to support its operation, expand marketing and specialized services, and replace buses and other equipment. The Bay Metropolitan Transportation Authority provides linehaul and demand response services within Bay County. The Bay Metropolitan Transportation Authority provides services on a contractual basis to several nonprofit and governmental agencies within the County as well as other services not provided through private providers.

The accounting policies of the Bay Metropolitan Transportation Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units. In accordance with GASB Statement 20, the Authority has elected not to apply the FASB Statements and interpretations issued after November 30, 1989, to its financial statements. The following is a summary of the significant policies:

1. Reporting Entity

The accompanying financial statements are exclusive presentations of the financial condition and results of operations of the Bay Metropolitan Transportation Authority. The Authority has followed the guidelines of the Governmental Accounting Standards Board's Statement No. 14, and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements.

2. Basis of Presentation

The accounts of the Bay Metropolitan Transportation Authority are organized on the basis of a fund which is considered a separate accounting entity. The operation of the fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. Bay Metropolitan Transportation Authority resources are allocated to and accounted for in the individual fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The fund in the financial statements in this report is described as follows:

PROPRIETARY FUND

Enterprise Fund - This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

3. Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Assets. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

BAY METROPOLITAN TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

4. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary funds are accounted for using the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred, regardless of the timing of related cash flows.

5. Cash and Cash Equivalents

The Bay Metropolitan Transportation Authority cash accounts consist of various checking and savings accounts. The balances in the cash accounts are available to meet current operating requirements. Cash in excess of current requirements is invested in various interest bearing accounts.

6. Cash on Deposit with Agent

The Authority has cash on deposit with the Michigan Transit Insurance Pool of which it is a member. The cash is being held in a premium stabilization fund on behalf of the Authority and is available, without restriction, to the Authority.

7. Inventories

Inventories consist of fuel and maintenance and repair parts and are valued on the average cost basis.

8. Capital Assets

Capital assets, which include land, buildings, vehicles, and equipment, are capitalized at total acquisition cost, provided such cost exceeds \$5,000 and the expected useful life of the asset is more than one year. Depreciation is recorded on all depreciable capital assets on a straight-line basis over the estimated useful lives of the assets.

The estimated useful lives are:

Buildings	5 - 30 years
Revenue equipment	2 - 12 years
Fare boxes	10 years
Service vehicles	2 - 12 years
Radio equipment	10 years
Furniture and fixtures	6 - 10 years
Maintenance equipment	5 - 10 years
Shelter and signs	3 - 4 years
Data processing equipment	4 - 10 years

9. Compensated Absences

Bay Metropolitan Transportation Authority employees are granted paid leave time in varying amounts. In the event of termination, an employee is paid for certain portions of unused paid leave time. This amount has been recorded in the Statement of Net Assets.

BAY METROPOLITAN TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

10. Cost Allocations

The Bay Metropolitan Transportation Authority allocates expenses between various program activities for grant reporting purposes. The allocations are prepared based on a cost allocation plan and methodology that has been approved by the grantor agency (i.e., service hours, service miles, peak vehicle).

11. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since the inclusion of comparative data would make the statements unduly complex and difficult to read.

12. Accounting Change

Effective October 1, 2003, the Bay Metropolitan Transportation Authority implemented the provisions of Governmental Accounting Standards Board Statement 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (GASB No. 34) along with all related statements and interpretations. Changes to the Authority's financial statements as a result of GASB No. 34 are as follows:

- A Management's Discussion and Analysis (MD&A) section provided analysis of the Authority's overall financial position and results of operations has been added.
- The Authority's net assets have been restated to reflect the Authority's investment in capital assets net of the related debt that was previously reported as contributed capital.

This implementation has also required certain disclosures to be made in the notes to the financial statements concurrent with the implementation of Statement No. 34 based on GASB Statement No. 38. As a result, certain note disclosures have been added and/or amended.

NOTE B: CASH AND CASH EQUIVALENTS

The Bay Metropolitan Transportation Authority is authorized to invest any of its funds in one (1) or more of the following:

1. Bonds, securities, and other obligations of the United States or any agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which it maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.

BAY METROPOLITAN TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental agency's are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Cash and cash equivalents on the balance sheet consist of the following:

Imprest cash	\$ 243
Checking and savings accounts	<u>1,927,744</u>
Total	<u>\$ 1,927,987</u>

Deposits

Deposits are maintained at two (2) financial institutions and are carried at cost, as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Imprest cash	\$ 243	\$ -
Insured (FDIC)	200,000	200,000
Uninsured	<u>1,727,744</u>	<u>1,733,588</u>
Total deposits	<u>\$ 1,927,987</u>	<u>\$ 1,933,588</u>

NOTE C: GRANTS RECEIVABLE

Grants receivable at September 30, 2004, by grant type and year are as follows:

State Operating Assistance - FY04	\$ 30,734
State Capital Assistance - Section 5307 Match	3,054
Federal Section 5311 - FY02	11,389
Federal Section 5311 - FY03	24,154
Federal Section 5311 - FY04	47,236
Federal Section 5307 - FY04	200,977
Federal Section 5303 - FY04	13,095
Project Zero	4,310
Specialized Services - FY04	<u>34,929</u>
Total	<u>\$ 369,878</u>

BAY METROPOLITAN TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE D: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2004, was as follows:

	Balance Oct. 1, 2003	Additions	Deletions	Balance Sept. 30, 2004
Business-type activities:				
Land (not depreciated)	\$ 165,894	\$ -	\$ -	\$ 165,894
Building	4,937,914	-	-	4,937,914
Revenue equipment	9,280,344	302,935	250,817	9,332,462
Fareboxes	13,101	-	-	13,101
Service vehicles	188,100	34,704	-	222,804
Radio equipment	188,742	-	984	187,758
Furniture and fixtures	16,833	-	5,720	11,113
Maintenance equipment	206,333	-	13,102	193,231
Shelter and signs	45,617	-	-	45,617
Data processing equipment	<u>257,869</u>	<u>19,991</u>	<u>10,842</u>	<u>267,018</u>
Totals at historical cost	15,300,747	357,630	281,465	15,376,912
Less accumulated depreciation for:				
Building	(2,715,878)	(236,699)	-	(2,952,577)
Revenue equipment	(5,784,360)	(870,717)	(250,510)	(6,404,567)
Fareboxes	(13,100)	-	-	(13,100)
Service vehicles	(188,099)	(8,676)	-	(196,775)
Radio equipment	(129,130)	(18,212)	(984)	(146,358)
Furniture and fixtures	(10,596)	(1,468)	(5,720)	(6,344)
Maintenance equipment	(120,953)	(18,695)	(13,102)	(126,546)
Shelter and signs	(36,032)	(2,328)	-	(38,360)
Data processing equipment	<u>(168,687)</u>	<u>(34,710)</u>	<u>(10,841)</u>	<u>(192,556)</u>
Total accumulated depreciation	<u>(9,166,835)</u>	<u>(1,191,505)</u>	<u>(281,157)</u>	<u>(10,077,183)</u>
Net Capital Assets	<u>\$ 6,133,912</u>	<u>\$ (833,875)</u>	<u>\$ 308</u>	<u>\$ 5,299,729</u>

BAY METROPOLITAN TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE D: CAPITAL ASSETS - CONTINUED

A summary of capital assets by funding source at September 30, 2004, follows:

	Purchased with Authority Funds	Purchased with Capital Grants	Purchased with Capital Lease Proceeds	Total
Land (not depreciated)	\$ 102,394	\$ 63,500	\$ -	\$ 165,894
Buildings	259,695	4,678,219	-	4,937,914
Revenue equipment	70,012	8,428,450	834,000	9,332,462
Fare boxes	-	13,101	-	13,101
Service vehicles	-	222,804	-	222,804
Radio equipment	77	187,681	-	187,758
Furniture and fixtures	11,113	-	-	11,113
Maintenance equipment	21,213	172,018	-	193,231
Shelter and signs	-	45,617	-	45,617
Data processing equipment	132	266,886	-	267,018
Total	464,636	14,078,276	834,000	15,376,912
Less: accumulated depreciation	(278,616)	(9,082,466)	(716,101)	(10,077,183)
Net Capital Assets	<u>\$ 186,020</u>	<u>\$ 4,995,810</u>	<u>\$ 117,899</u>	<u>\$ 5,299,729</u>

When Federal or State funded assets are withdrawn from public transportation service, the disposition of the assets is to be determined by the United States Department of Transportation (USDOT) and the Michigan Department of Transportation (MDOT). During the year the Bay Metropolitan Transportation Authority disposed of assets that were Federally and State funded with a historical cost of \$281,465. The total amount disposed of was not fully depreciated by \$308. Depreciation expense in the amount of \$1,191,505 was reported for year ended September 30, 2004.

NOTE E: RETIREMENT PLAN

Plan Description

The Bay Metropolitan Transportation Authority participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible (i.e., full-time) employees of the Bay Metropolitan Transportation Authority. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

Covered employees currently are not required to make contributions to the retirement system. The Bay Metropolitan Transportation Authority is required to contribute the remaining amounts necessary to fund the system.

BAY METROPOLITAN TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE E: RETIREMENT PLAN - CONTINUED

Annual Pension Cost

For year ended September 30, 2004, the Bay Metropolitan Transportation Authority's annual pension cost of \$369,529 for the plan was equal to the Bay Metropolitan Transportation Authority's required and actual contribution. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2001, using the entry age normal actuarial cost method. Actual required contributions are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation and (c) additional salary increases ranging from 0% to 4.2% per year depending on age, seniority and merit. The unfunded actuarial liability is being amortized as a level percentage of payroll over a period of thirty-two (32) years.

Three (3) year trend information

	Year Ended December 31,		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
Actuarial value of assets	\$ 1,177,426	\$ 1,749,749	\$ 2,366,658
Actuarial accrued liability (AAL) (entry age)	2,405,439	4,008,623	4,990,123
Unfunded (overfunded) AAL	1,228,013	2,258,874	2,623,465
Funded ratio	49 %	44 %	47 %
Covered payroll	2,818,837	2,949,848	3,219,623
UAAL as a percentage of covered payroll	44 %	77 %	81 %

	Year Ended September 30,		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Annual pension cost	\$ 237,573	\$ 347,237	\$ 369,529
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	-	-	-

NOTE F: COMPENSATED ABSENCES

Paid leave time is accrued at the rate of 19, 24 and 29 days for one, two and five years of service, respectively, for United Steel Workers of America union employees. Unused paid leave shall be paid off on the first pay period after the employee's anniversary date. Employees may carryover a maximum of 80 hours. Vacation, sick, and personal days are no longer separately determined for this class of employees.

Support personnel accrue paid leave days as follows:

Less than one year service	7 days
After one year of service	8 days
Two years of service	9 days
Three and over years of service	10 days

Management employees accrue paid leave days as follows:

Less than one year service	8 days
One to three years of service	21 days
Three to five years of service	26 days
Five and over years of service	31 days

BAY METROPOLITAN TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE F: COMPENSATED ABSENCES - CONTINUED

Management employees may carry over a maximum of 40 hours, except for the General Manager, who may carry over 80 hours. Unused hours are paid out to the employee.

Teamsters union employees accrue paid leave days as follows:

After completion of probation	5 days
After one year of service	17 days
After two years of service	22 days
After five years of service	27 days

Part-time employees are eligible for 50 percent of the accrual. Each year, based on the anniversary date of employment, employees may cash in unused leave time or carry over up to forty (40) hours.

Sick leave is no longer accrued. Staff employees with five or more years seniority may receive cash for 50 percent of sick leave accrued prior to October 1, 1994 upon termination of employment, not to exceed \$1,000.

Accumulated compensated absences represent a liability to the Authority, which is presented as a current liability. A current liability of \$354,837 is reported in the Statement of Net Assets at September 30, 2004.

NOTE G: PROPERTY TAX REVENUES

The Bay Metropolitan Transportation Authority property tax is levied in December on the State Equalized Valuation of property located in the County of Bay as of the preceding December. Real and personal property in the County for the current levy was assessed and equalized at approximately \$2.538 billion representing 50% of estimated current market value. In August 2000, the Bay Metropolitan Transportation Authority's tax rate of .75 mills was renewed for five (5) years, expiring in December 2005. For the year ended September 30, 2004, the Bay Metropolitan Transportation Authority levied .75 mills.

NOTE H: RISK MANAGEMENT

The Bay Metropolitan Transportation Authority is a member of the Michigan Transit Liability Trust Fund ("Pool") established pursuant to an Intergovernmental Agreement entered into by the member Transit Agencies and Authorities.

This Pool was established for the purpose of making a self-insurance pooling program available for Michigan Transit Agencies and Authorities, which includes, but is not limited to, bodily injury liability, property damage liability, and personal injury liability related to vehicle operation of the Bay Metropolitan Transportation Authority.

The Bay Metropolitan Transportation Authority pays an annual premium to the Pool for this coverage. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums. Annually, the Authority receives notification from the Pool of retrospective claims adjustments based on the actual claims experience of the Authority and other members of the Pool. These retrospective claims adjustments, determined by the Pool, are accrued annually by the Authority upon notification.

The Bay Metropolitan Transportation Authority continues to carry commercial insurance for employee health and other insurance including general liability and commercial building insurance.

BAY METROPOLITAN TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE I: CONTINGENT LIABILITIES

Under the terms of various Federal and State grants, periodic compliance audits are required and certain costs may be questioned, allowed, or disallowed, which could result in funds being returned and/or received from grantor agencies.

There is legal action pending in two workers' compensation claims against Bay Metropolitan Transportation Authority. One of the cases will be settled for \$120,000, which would be covered through the Authority's self-insurance. The second case has not yet come to trial and the Authority's attorney states that the outcome of the case cannot be determined at this time.

NOTE J: SELF INSURANCE

The Authority is self-insured for employee's workers' compensation insurance. The self-insurance program is administered by an independent administrator who processes daily claims and performs management duties. Currently, the Authority insures claims of up to \$250,000 for an individual employee. In addition, the Authority has purchased insurance coverage to pay claims exceeding the self-insured portion. To date, the Authority has not incurred any claims exceeding the plan limit.

The claim liability at September 30, 2004, is based on the requirements of Governmental Accounting Standards Board, Statement No. 10, which requires that a liability for claims be reported if it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. The claim liability is estimated by the independent administrator.

The changes in the claim liability for the years ended September 30, 2004 and September 30, 2003, are as follows:

	<u>Beginning of Year/Period Liability</u>	<u>Current Year/Period Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>End of Year/Period Liability</u>
2004	\$ 179,372	\$ 170,711	\$ 145,925	\$ 204,158
2003	87,261	165,635	73,524	179,372

OTHER SUPPLEMENTARY INFORMATION

BAY METROPOLITAN TRANSPORTATION AUTHORITY

SCHEDULE OF OPERATING REVENUES

Year Ended September 30, 2004

Operating revenues	
Urban and rural fares	\$ 150,391
Contract fares	460,729
Auxiliary transportation revenue	
Administrative services	2,492
Nontransportation revenue	
Maintenance services	19,873
Central Bus Station rental	34,853
Gain on sale of capital assets	17,366
Other	816
	<hr/>
TOTAL OPERATING REVENUES	\$ 686,520
	<hr/>

BAY METROPOLITAN TRANSPORTATION AUTHORITY

SCHEDULE OF OPERATING EXPENSES

Year Ended September 30, 2004

	<u>Operations</u>	<u>Maintenance</u>	<u>General Administrative</u>	<u>Total System</u>
Labor				
Operator's salaries and wages	\$ 1,625,816	\$ -	\$ -	\$ 1,625,816
Other salaries and wages	354,706	501,727	401,809	1,258,242
Fringe benefits	1,720,753	308,412	289,274	2,318,439
Contractual services				
Advertising	-	-	26,543	26,543
Audit cost	-	-	10,500	10,500
Other services	26,787	34,834	44,108	105,729
Materials and supplies consumed				
Fuel and lubricants	229,535	14,276	-	243,811
Tires and lubes	25,776	-	-	25,776
Major supplies	1,425	11,079	6,990	19,494
Other materials and supplies	6,718	283,865	17,140	307,723
Utilities	-	96,061	12,188	108,249
Insurance	248,942	-	18,412	267,354
Taxes	-	-	2,279	2,279
Miscellaneous expenses				
Purchased services	120,500	-	-	120,500
Travel and meetings	1,298	3,280	30,822	35,400
Dues and subscriptions	-	-	18,075	18,075
Central bus station	-	57,195	-	57,195
Other miscellaneous expenses	2,412	12,841	11,143	26,396
Lease and rentals	-	2,161	10,678	12,839
Depreciation	<u>873,353</u>	<u>45,583</u>	<u>272,569</u>	<u>1,191,505</u>
TOTAL OPERATING EXPENSES	<u>\$ 5,238,021</u>	<u>\$ 1,371,314</u>	<u>\$ 1,172,530</u>	<u>\$ 7,781,865</u>

BAY METROPOLITAN TRANSPORTATION AUTHORITY

SCHEDULE OF NONOPERATING REVENUES - LOCAL

Year Ended September 30, 2004

Property tax	\$ 1,931,668
Interest income	<u>14,254</u>
TOTAL NONOPERATING REVENUES - LOCAL	<u><u>\$ 1,945,922</u></u>

BAY METROPOLITAN TRANSPORTATION AUTHORITY
SCHEDULE OF NONOPERATING REVENUES - STATE AND FEDERAL

Year Ended September 30, 2004

State of Michigan grants	
Formula operating assistance (Act 51)	\$ 2,754,060
Capital match for Section 5307 grant	60,648
Capital match for Section 5309 grant	10,878
Prior year adjustments	
FY 2003 operating assistance	(54,778)
FY 1999 operating assistance	(33,068)
Section 5307 capital match	<u>(4)</u>
Total State of Michigan operating and capital grants	2,737,736
Federal grants	
U.S.D.O.T. operating grant - Section 5307	765,182
U.S.D.O.T. capital grant - Section 5307	242,592
U.S.D.O.T. capital grant - Section 5309	43,512
U.S.D.O.T. operating grant - Section 5311	281,828
U.S.D.O.T. planning grant - Section 5303	<u>24,664</u>
Total Federal operating and capital grants	<u>1,357,778</u>
TOTAL NONOPERATING REVENUES - STATE AND FEDERAL	<u><u>\$ 4,095,514</u></u>

BAY METROPOLITAN TRANSPORTATION AUTHORITY
NET ELIGIBLE COST COMPUTATIONS OF GENERAL OPERATIONS

Year Ended September 30, 2004

	Operations		Planning	
	Federal	Federal	Federal	
	Section 5311	Section 5307	Section 5303	Total
Expenses				
Labor	\$ 1,086,977	\$ 1,775,834	\$ 21,247	\$ 2,884,058
Fringe benefits	859,608	1,449,119	9,712	2,318,439
Professional services	68,531	74,241	-	142,772
Materials and supplies	275,682	321,122	-	596,804
Utilities	51,960	56,289	-	108,249
Insurance	117,636	149,718	-	267,354
Taxes	1,094	1,185	-	2,279
Purchased transportation services	57,840	62,660	-	120,500
Miscellaneous	65,821	71,245	-	137,066
Leases and rentals	6,164	6,675	-	12,839
Depreciation	447,829	743,676	-	1,191,505
Total expenses	3,039,142	4,711,764	30,959	7,781,865
Less ineligible expenses				
Central bus station	(15,710)	(19,995)	-	(35,705)
Association dues	(1,349)	(1,462)	-	(2,811)
Auxiliary transportation revenue	(1,196)	(1,296)	-	(2,492)
Sale of maintenance services	(8,744)	(11,129)	-	(19,873)
Depreciation	(438,371)	(730,080)	-	(1,168,451)
Total ineligible expenses	(465,370)	(763,962)	-0-	(1,229,332)
NET ELIGIBLE EXPENSES	<u>\$ 2,573,772</u>	<u>\$ 3,947,802</u>	<u>\$ 30,959</u>	<u>\$ 6,552,533</u>
Maximum Section 5311 reimbursement 10.95% of \$2,573,772	<u>\$ 281,828</u>			
Maximum Section 5307 reimbursement 50% of \$3,947,802, not to exceed \$765,182		<u>\$ 765,182</u>		
Maximum Section 5303 reimbursement 80% of \$30,959, not to exceed \$24,664			<u>\$ 24,664</u>	
State operating assistance 42.236619648% of \$6,552,533, not to exceed \$2,754,060				<u>\$ 2,754,060</u>

BAY METROPOLITAN TRANSPORTATION AUTHORITY

SCHEDULE OF INELIGIBLE EXPENSES

Year Ended September 30, 2004

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Ineligible Expense</u>
Urban Mass Transportation Administration		
A) Operating Grants Listed on Schedule of Expenditures of Federal Awards		
	1. Central bus station - local expenses must be deducted as an ineligible expense.	\$ 35,705
	2. Association dues - a percentage of the annual dues to Transit associations must be deducted as an ineligible expense.	2,811
	3. Auxiliary transportation revenue - eligible expenses are reduced by auxiliary transportation revenue.	2,492
	4. Sale of maintenance service - eligible expenses are reduced by proceeds from services.	19,873
	5. Depreciation - depreciation on capital assets purchased with Federal and State grants must be deducted as an ineligible expense.	<u>1,168,451</u>
	Total	<u>\$ 1,229,332</u>

BAY METROPOLITAN TRANSPORTATION AUTHORITY
SCHEDULE OF VEHICLE HOURS AND MILEAGE DATA (UNAUDITED)

Year Ended September 30, 2004

	Vehicle Hours	Public Transportation Mileage ⁽¹⁾
Motor bus		
1st quarter	12,775	199,990
2nd quarter	12,492	196,630
3rd quarter	12,580	194,679
4th quarter	12,419	190,298
	<hr/>	<hr/>
Total motor bus	50,266	781,597
Demand response		
1st quarter	11,920	196,635
2nd quarter	12,055	199,248
3rd quarter	11,586	195,409
4th quarter	11,327	190,153
	<hr/>	<hr/>
Total demand response	46,888	781,445
	<hr/>	<hr/>
TOTAL OPERATIONS	97,154	1,563,042
	<hr/> <hr/>	<hr/> <hr/>

⁽¹⁾ The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

BAY METROPOLITAN TRANSPORTATION AUTHORITY

SUBRECIPIENT SCHEDULE OF OPERATING AND NONOPERATING REVENUES (UNAUDITED) -
ARENAC OPPORTUNITIES, INC.

Year Ended September 30, 2004

Operating revenues	
Passenger fares	\$ 16,735
Contract fares	<u>207,031</u>
Total operating revenues	223,766
Local nonoperating revenue	
Miscellaneous	5,000
State of Michigan grants	
Formula operating assistance (Act 51)	192,057
Prior year adjustment	
FY 2003 operating assistance	<u>(4,863)</u>
Total State of Michigan grants	187,194
Federal grants	
U.S.D.O.T. operating grant - Section 5311	<u>49,799</u>
TOTAL OPERATING AND NONOPERATING REVENUES	<u><u>\$ 465,759</u></u>

BAY METROPOLITAN TRANSPORTATION AUTHORITY

SUBRECIPIENT SCHEDULE OF OPERATING EXPENSES (UNAUDITED) -
ARENAC OPPORTUNITIES, INC.

Year Ended September 30, 2004

	<u>Operations</u>	<u>Maintenance</u>	<u>General Administrative</u>	<u>Total System</u>
Labor				
Operator's salaries and wages	\$ 181,256	\$ -	\$ -	\$ 181,256
Other salaries and wages	35,821	-	30,496	66,317
Fringe benefits	25,603	-	3,491	29,094
Contractual services				
Advertising	-	-	1,615	1,615
Other services	-	27,975	4,227	32,202
Materials and supplies consumed				
Fuel and lubricants	39,526	-	-	39,526
Tires and lubes	3,211	-	-	3,211
Major supplies	1,990	-	-	1,990
Other materials and supplies	-	4,276	1,687	5,963
Utilities	-	-	10,417	10,417
Insurance	72,764	-	3,156	75,920
Interest	-	-	1,864	1,864
Miscellaneous expenses				
Travel and meetings	-	-	3,571	3,571
Dues and subscriptions	-	-	2,604	2,604
Other miscellaneous expenses	-	-	483	483
Lease and rentals	-	-	725	725
Depreciation	-	-	1,568	1,568
TOTAL OPERATING EXPENSES	<u>\$ 360,171</u>	<u>\$ 32,251</u>	<u>\$ 65,904</u>	<u>\$ 458,326</u>

BAY METROPOLITAN TRANSPORTATION AUTHORITY

SUBRECIPIENT SCHEDULE OF NONOPERATING REVENUES - STATE AND FEDERAL (UNAUDITED) -
ARENAC OPPORTUNITIES, INC.

Year Ended September 30, 2004

State of Michigan grants	
Formula operating assistance (Act 51)	\$ 192,057
Prior year adjustment	
FY 2003 operating assistance	<u>(4,863)</u>
Total State of Michigan grants	187,194
Federal grants	
U.S.D.O.T. operating grant - Section 5311	<u>49,799</u>
TOTAL NONOPERATING REVENUES - STATE AND FEDERAL	<u><u>\$ 424,187</u></u>

BAY METROPOLITAN TRANSPORTATION AUTHORITY

SUBRECIPIENT NET ELIGIBLE COST COMPUTATIONS OF GENERAL OPERATIONS (UNAUDITED) -
ARENAC OPPORTUNITIES, INC.

Year Ended September 30, 2004

	<u>Operations</u>
Expenses	
Labor	\$ 247,573
Fringe benefits	29,094
Professional services	33,817
Materials and supplies	50,690
Utilities	10,417
Insurance	75,920
Interest	1,864
Miscellaneous	6,658
Leases and rentals	725
Depreciation	<u>1,568</u>
Total expenses	458,326
Less ineligible expenses	
Interest	(1,864)
Depreciation	(1,568)
Association dues	<u>(104)</u>
Total ineligible expenses	<u>(3,536)</u>
NET ELIGIBLE EXPENSES	<u><u>\$ 454,790</u></u>
Maximum Federal Section 5311 reimbursement	
10.95% of \$454,790	<u><u>\$ 49,799</u></u>
State operating assistance	
42.236619648% of \$454,790, not to exceed \$192,057	<u><u>\$ 192,057</u></u>

BAY METROPOLITAN TRANSPORTATION AUTHORITY

SUBRECIPIENT SCHEDULE OF VEHICLE HOURS AND MILEAGE DATA (UNAUDITED) -
ARENAC OPPORTUNITIES, INC.

Year Ended September 30, 2004

	Vehicle Hours	Public Transportation Mileage
TOTAL OPERATIONS	<u>15,325</u>	<u>646,284</u>

BAY METROPOLITAN TRANSPORTATION AUTHORITY

SCHEDULE OF EXPENDITURES OF STATE AWARDS

Year Ended September 30, 2004

<u>State Grantor/Program Title</u>	<u>Grant Number</u>	<u>Restated Program or Award Amount</u>	<u>Accrued (Deferred) Revenue at Oct. 1, 2003</u>	<u>Adjustments by Grantors to Accrued (Deferred)</u>
MICHIGAN DEPARTMENT OF TRANSPORTATION				
Operating assistance (FY 99)	N/A	\$ 2,346,065	\$ -	\$(33,068)
Operating assistance (FY 03)				
Arenac Opportunities, Inc.	N/A	193,723	20,320	(4,863)
Operating assistance (FY 03)	N/A	2,709,731	152,279	(54,778)
Operating assistance (FY 04)	N/A	2,754,060	-	-
Operating assistance (FY 04)				
Arenac Opportunities, Inc.	N/A	192,057	-	-
Capital assistance - Section 5307 match	2002-0014/Z24	29,048	-	-
Capital assistance - Section 5307 match	2002-0014/Z9	81,200	-	-
Capital assistance - Section 5307 match	2002-0014/Z17	42,864	-	-
Capital assistance - Section 5309 match	2002-0014/Z8	72,000	-	-
Capital assistance - Section 5311 match	2002-0014/Z6	38,120	-	(4)
Specialized services 02-03 (Flow through)	2002-0014/Z12	126,146	6,224	-
Specialized services 03-04 (Flow through)	2002-0014/Z15	128,146	-	-
Project Zero - Bay County Operating (Flow through)	2001-0302	8,640	1,440	-
Project Zero - Bay County Operating (Flow through)	2002-0014/Z11	15,015	(959)	-
Project Zero - Bay County Operating - Michigan Works Match (Flow through)	2002-0014/Z11	5,005	1,244	-
Project Zero - Bay County Operating - Michigan Works Match (Flow through)	2002-0014/Z16	4,170	-	-
Project Zero - Bay County Operating (Flow through)	2002-0014/Z16	<u>12,510</u>	<u>-</u>	<u>-</u>
TOTAL STATE ASSISTANCE		<u>\$ 8,758,050</u>	<u>\$ 180,548</u>	<u>\$(92,713)</u>

Adjusted Accrued (Deferred) Revenue at <u>Oct. 1, 2003</u>	Current Year Receipts/ (Payments)	Current Year <u>Expenditures</u>	Accrued (Deferred) Revenue at <u>Sept. 30, 2004</u>
\$(33,068)	\$(33,068)	\$ -	\$ -
15,457	15,457	-	-
97,501	97,501	-	-
-	2,723,326	2,754,060	30,734
-	208,151	192,057	(16,094)
-	-	3,054	3,054
-	21,178	21,178	-
-	36,416	36,416	-
-	10,878	10,878	-
(4)	-	-	(4)
6,224	6,224	-	-
-	93,000	127,929	34,929
1,440	1,440	-	-
(959)	-	-	(959)
1,244	1,244	-	-
-	2,519	3,200	681
<u>-</u>	<u>5,972</u>	<u>9,601</u>	<u>3,629</u>
<u>\$ 87,835</u>	<u>\$ 3,190,238</u>	<u>\$ 3,158,373</u>	<u>\$ 55,970</u>

BAY METROPOLITAN TRANSPORTATION AUTHORITY

RECONCILIATION OF STATE AWARDS

Year Ended September 30, 2004

Total assistance reported on the Schedule of Expenditures of State Awards	\$ 3,158,373
State operating assistance adjustment - 02/03	(54,778)
State operating assistance adjustment - 98/99	(33,068)
Capital assistance section 5307 match adjustment	(4)
Specialized services grant reported as flow through on financial statements	(127,929)
Project Zero operating grants reported as flow through on financial statements	(12,801)
State operating assistance reported as flow through to Arenac Opportunities, Inc. on the financial statements	<u>(192,057)</u>
State assistance reported as nonoperating revenue in the financial statements	<u><u>\$ 2,737,736</u></u>

SINGLE AUDIT SECTION

BAY METROPOLITAN TRANSPORTATION AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2004

<u>Federal Grantor/ Pass through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grantor Number</u>	<u>Restated Program Award Amount</u>
U.S. DEPARTMENT OF TRANSPORTATION			
Federal Transit Administration			
Direct Assistance			
Federal Transit - Formula Grants ^{(a) (b)}	20.507		
Capital Assistance - Section 5307		MI-90-0448	\$ 116,192
Operating Assistance - Section 5307		MI-90-4448	765,182
Capital Assistance - Section 5307		MI-90-0387	324,800
Capital Assistance - Section 5307		MI-90-X418	<u>171,456</u>
Total Direct Federal Assistance			1,377,630
Passed through Bay County			
Federal Transit - Metropolitan Planning Grants	20.505		
Planning Assistance - Section 5303 02-03		N/A	24,360
Planning Assistance - Section 5303 03-04		N/A	<u>24,664</u>
Total Passed through Bay County			49,024
Passed through State of Michigan			
Federal Transit - Capital Investment Grants ^{(a) (b)}	20.500		
Capital Assistance - Section 5309		2002-0014/Z28	288,000
Formula Grants for Other than Urbanized Areas ^(a)			
Operating Assistance - Section 5311 (FY 03)	20.509		
Arenac Opportunities, Inc.		2002-0014/Z13	49,410
Operating Assistance - Section 5311 (FY 03)		2002-0014/Z14	264,447
Operating Assistance - Section 5311 (FY 02)		2002-0014/Z5	203,401
Operating Assistance - Section 5311 (FY 01)		2001-0011	194,809
Operating Assistance - Section 5311 (FY 01)			
Arenac Opportunities, Inc.		2001-0008	36,707
Capital Assistance - Section 5311		2002-0014/Z6	152,480
Capital Assistance - Section 5311 (FY 04)		N/A	281,828
Capital Assistance - Section 5311 (FY 04)			
Arenac Opportunities, Inc.		N/A	<u>49,799</u>
Total Passed through State of Michigan			<u>1,232,881</u>
TOTAL FEDERAL ASSISTANCE			<u>\$ 2,947,535</u>

(a) Denotes major program.

(b) Denotes programs required to be clustered by the United States Department of Transportation.

(c) The total federal revenue on the Schedule of Nonoperating Revenues is \$1,357,778. The total federal revenue on the Schedule of Expenditures of Federal Awards is \$1,407,577. The difference between the Federal revenue amounts is \$49,799, due to Capital Assistance - Section 5311 passed through to Arenac Opportunities, Inc.

<u>Accrued (Deferred) Revenue at Oct. 1, 2003</u>	<u>Adjustments by Grantors to Accrued (Deferred)</u>	<u>Adjusted Accrued (Deferred) Revenue at Oct. 1, 2003</u>	<u>Current Year Receipts/ (Payments)</u>	<u>Current Year Expenditures</u>	<u>Accrued (Deferred) Revenue at Sept. 30, 2004</u>
\$ -	\$ -	\$ -	\$ 2,364	\$ 12,217	\$ 9,853
-	-	-	574,057	765,182	191,125
-	-	-	84,711	84,711	-
-	-	-	145,664	145,664	-
-0-	-0-	-0-	806,796	1,007,774	200,978
340	-	340	340	-	-
-	-	-	11,569	24,664	13,095
340	-0-	340	11,909	24,664	13,095
-	-	-	43,512	43,512	-
8,838	(236)	8,602	3,759	-	4,843
39,739	-	39,739	20,428	-	19,311
11,389	-	11,389	-	-	11,389
3,126	-	3,126	3,126	-	-
4,539	65	4,604	4,604	-	-
-	(14)	(14)	-	-	(14)
-	-	-	242,853	281,828	38,975
-	-	-	41,538	49,799	8,261
67,631	(185)	67,446	316,308	331,627	82,765
<u>\$ 67,971</u>	<u>\$(185)</u>	<u>\$ 67,786</u>	<u>\$ 1,178,525</u>	<u>\$ 1,407,577</u> ^(c)	<u>\$ 296,838</u>

Principals

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Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

Karen A. Roka, CPA
James A. Huguelet, CPA
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William I. Tucker IV, CPA
Kurt M. Lemmen, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

Member:
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Bay Metropolitan Transportation Authority
Bay City, Michigan

We have audited the basic financial statements of the Bay Metropolitan Transportation Authority as of and for the year ended September 30, 2004, and have issued our report thereon dated November 10, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Bay Metropolitan Transportation Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bay Metropolitan Transportation Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of management and the Board of Directors of the Bay Metropolitan Transportation Authority, the Federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

November 10, 2004

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Bay Metropolitan Transportation Authority
Bay City, Michigan

Compliance

We have audited the compliance of the Bay Metropolitan Transportation Authority with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that is applicable to its major Federal programs for the year ended September 30, 2004. The Bay Metropolitan Transportation Authority's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major Federal programs is the responsibility of the Bay Metropolitan Transportation Authority's management. Our responsibility is to express an opinion on the Bay Metropolitan Transportation Authority compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Bay Metropolitan Transportation Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Bay Metropolitan Transportation Authority's compliance with those requirements.

In our opinion, the Bay Metropolitan Transportation Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended September 30, 2004. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings under the appropriate heading.

Internal Control Over Compliance

The management of the Bay Metropolitan Transportation Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Bay Metropolitan Transportation Authority's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one (1) or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of management and the Board of Directors of the Bay Metropolitan Transportation Authority, the Federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

November 10, 2004

BAY METROPOLITAN TRANSPORTATION AUTHORITY

SCHEDULE OF FINDINGS

Year Ended September 30, 2004

SUMMARY OF AUDITOR'S RESULTS

An unqualified opinion was issued on the financial statements of the Bay Metropolitan Transportation Authority. There were no reportable conditions disclosed by the audit of the basic financial statements. We noted no instances of noncompliance with laws, regulations, contracts, and grants that could have a direct and material effect on the financial statements.

An unqualified opinion was issued on compliance for major programs. We disclosed two (2) findings regarding internal controls or compliance related to the major programs tested as detailed below with reference numbers 04-1 and 04-2.

The major programs tested to cover 25 percent of the total Federal expenditures were the Federal Transit Cluster (CFDA 20.500 and CFDA 20.507) and the Formula Grants for Other Than Urbanized Areas (CFDA 20.509). Total Federal expenditures for the year ended September 30, 2004, for the major programs were \$1,382,913, which is approximately 98 percent of the total Federal Award expenditures. It was determined that the Authority qualified as a low-risk auditee.

The dollar threshold for Type A programs of the Bay Metropolitan Transportation Authority was \$300,000. The Federal Transit Formula Grants and Formula Grants for Other Than Urbanized Areas programs qualified as Type A. Programs of less than \$300,000 were determined to be Type B programs.

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Control Over the Financial Statements.

None

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

None

Findings Related to Compliance with Requirements to the Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.

04-1 BUY AMERICA CERTIFICATION

Condition: Buy America certification was not obtained as required for a purchase of manufactured products made during the year.

Criteria: Funds are not to be expended for material purchases of manufactured products that are not manufactured in the U.S., as demonstrated by a Buy America certificate.

Effect: No effect on the basic financial statements.

Recommendation: We recommend the Authority review their purchasing procedures to assure that the required documentation is obtained when making applicable purchases.

Corrective Action Response: Management of the Authority is currently reviewing procedures related to documentation required to be obtained for material purchases of manufactured goods and will implement necessary changes in order to comply with the cited requirements.

BAY METROPOLITAN TRANSPORTATION AUTHORITY

SCHEDULE OF FINDINGS - CONTINUED

Year Ended September 30, 2004

FINDINGS/NONCOMPLIANCE - CONTINUED

Findings Related to Compliance with Requirements to the Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 - continued.

04-2 PRE-AWARD AND POST-DELIVERY REVIEWS

Condition: No pre-award review was done before entering into a formal contract for the purchase of rolling stock. Also, no post-delivery review was completed prior to transfer of title in a purchase of rolling stock.

Criteria: Pre-award and post-delivery reviews verify the accuracy of the Buy America certification, purchaser's requirements certification, and certification of compliance with or inapplicability of Federal Motor Vehicles safety standards.

Effect: No effect on the basic financial statements.

Recommendation: We recommend the Authority review their purchasing procedures to assure that the required reviews are performed when purchasing rolling stock.

Corrective Action Response: Management of the Authority is currently reviewing procedures related to required reviews in connection with purchases of rolling stock and will implement necessary changes in order to comply with the cited requirements.

BAY METROPOLITAN TRANSPORTATION AUTHORITY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended September 30, 2004

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Controls Over the Financial Statements.

No prior reportable conditions.

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to Federal Awards and Internal Control Over Compliance in Accordance with OMB Circular A-133.

No prior audit findings.